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TAGS: ETRD, GATT
SUBJ: GATT ARTICLE XII CONSULTATIONS ON FINLANDS BOP
SITUATION

REF: GENEVA 2493

1. US POSITION IN SUBJ MEETING MUST TAKE INTO ACCOUNT
CONTINUING SERIOUSNESS OF FINNISH BOP SITUATION. ALTHOUGH
GOF HAD HOPED TO REDUCE ITS 1974 TRADE DEFICIT FROM NEAR
FMK 5 BILLION TO ABOUT FMK 3 BILLION IN 1975, THE 1975
TRADE DEFICIT REACHED ALMOST FMK 8 BILLION AS EXPORT DEMAND
CONTINUED WEAK AND DEMAND FOR IMPORTS WAS HIGHER THAN
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EXPECTED. COMPARED TO 1974 THE FINISH TRADE DEFICIT AND

CURRENT ACCOUNT DEFICIT HAVE INCREASED 55PERCENT AND 76 PERCENT RESPECTIVELY.

2. THOUGH U.S. IS PLEASED WITH RECENT FINNISH DECISION TO REMOVE SOME PRODUCTS (THOSE WITH 5PERCENT REQUIREMENTS) FROM THE IMPORT DEPOSIT SCHEME (IDS) AND TO SCHEDULE THE EVENTUAL PHASEOUT OF ALL OTHER IDS REQUIREMENTS BY THE END OF THE YEAR, WE REMAIN CONCERNED ABOUT FINNISH PROSPECTS FOR BRINGING ITS BOP SITUATION IN BETTER BALANCE BEFORE THE IDS IS TERMINATED. THOUGH WE'VE NOT SEEN THE IMF REPORT NOTED IN REFTTEL, RECENT REPORTS INDICATE NEGATIVE FINNISH BOP TREND IS CONTINUING. THEREFORE, U.S. SHOULD EXPRESS UNDERSTANDING OF DIFFICULTY OF FINNISH SITUATION AND AVOID TAKING CRITICAL STANCE ON BASIC ISSUE I.E., NEED FOR MEASURES NOT INCONSISTENT WITH ARTICLE XII OF GATT. CONSULTATIONS SHOULD FOCUS ON ASSESSMENT OF SITUATION AND PROSPECTS FOR SIGNIFICANT IMPROVEMENTS IN NEAR FUTURE. U.S. REP SHOULD UNDERSCORE NEED TO KEEP MATTER UNDER REVIEW.

3. IN COURSE OF CONSULTATIONS U.S. DEL MAY POSE FOLLOWING QUESTIONS:

A. IN L/4165 P. 3 FINLAND STATED PRIORITY WOULD BE GIVEN TO INVESTMENTS WHICH WOULD LEAD TO BALANCE IN THE CURRENT ACCOUNT. INVESTMENTS IN SERVICE RELATED INDUSTRIES WOULD BE CURBED. WHAT ACTIONS DID FINLAND TAKE IN THIS AREA AND WITH WHAT EFFECT? ARE THE RECENT HIGH LEVELS OF CAPITAL GOOD IMPORTS LIKELY TO CONTINUE IN 1976 AND WHAT ARE THE PROSPECTS THAT THESE INVESTMENTS WILL LEAD TO GREATER EXPORT EARNINGS? BACKGROUND: INVESTMENT GOODS IN 1973-75 REPRESENTED 17 PERCENT OF ALL IMPORTS AND INCREASED FROM FMK 2.9 BILLION IN 1973 TO FMK 5.2 BILLION IN 1975. A RETURN OF CAPITAL GOOD IMPORTS TO ITS NORMAL PERCENTAGE OF TOTAL IMPORTS WOULD AID FINLAND'S BOP POSITION. HOWEVER, EXPORTS OF METAL PRODUCTS AND MACHINERY ALREADY REPRESENT 26PERCENT OF ALL FINNISH EXPORTS IN 1975 (UP FROM 20PERCENT IN 1973) AND MAY HELP COUNTERBALANCE THE DEPRESSED MARKET FOR FOREST PRODUCTS WHICH USUALLY ACCOUNT FOR 50PERCENT OF LIMITED OFFICIAL USE

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FINNISH EXPORTS.

B. WHAT WERE THE "UNFAVORABLE CURRENT ACCOUNT DEVELOPMENTS" REFS IN BOP/162 P. 2 WHICH CONTRIBUTED TO FINLAND'S BOP PROBLEMS IN 1975? WHAT ARE THE PROSPECTS FOR AN IMPROVED BOP POSITION IN 1976? BACKGROUND: DEMAND FOR FINNISH FOREST PRODUCTS DECLINED FURTHER IN 1975 AND THE VOLUME EXPORTED DROPPED BY

ONE-THIRD COMPARED TO 1974. FINLAND'S HIGH RATE OF INFLATION (18PERCENT) ADVERSELY AFFECTED ITS INTERNATIONAL COMPETITIVENESS.

C. WHAT IS THE PROJECTED IMPACT OF THE BANK OF FINLAND'S NEW POLICY OF CHARGING "FINES" AS OF MAR 1 ON SUPPLIER CREDITS OF OVER 6 MONTHS? DOES FINLAND FORESEE THE NEED FOR OTHER FISCAL AND MONETARY POLICIES TO MODERATE EXCESSIVE DAMAND, INCLUDING IMPORT DEMAND? BACKGROUND; ONE OF THE DISAPPOINTING DEVELOPMENTS IN 1975 WAS THE GROWTH OF FOREIGN SHORT TERM BORROWING BY FINNISH IMPORTERS AS A MEANS OF LESSENING THE IMPACT OF THE IDS. IN 1975 THERE WAS NO REGULATION OF SUPPLIER CREDITS FOR UP TO 12 MONTHS, AND SHORT TERM BORROWING INCREASED FROM FMK 1.8 BILLION IN DECEMBER 1974 TO FMK 3.9 BILLION IN DECEMBER 1975. IN 1975 IMPORTS INCREASED TO FMK 28 BILLION FROM FMK 25.7 BILLION IN 1974. ALTHOUGH FINLAND'S 1975 EXPORTS DROPPED 2 PERCENT BELOW 1974 EXPORTS OF FMK 20.2 BILLION, THE EXPORT VOLUME DECLINED BY 18PERCENT.

D. WILL FINLAND SUPPLEMENT THE AMOUNT OF FOREIGN EXCHANGE WHICH HAS BEEN ANNOUNCED FOR FOREIGN QUOTAS IF THERE IS PRESSURE FOR ADDITIONAL IMPORTS? BACKGROUND: IN THE PAST WHEN FACTUAL IMPORTS WERE GREATER THAN ANNOUNCED IMPORT QUOTAS, FINLAND PROVIDED ADDITIONAL FOREIGN EXCHANGE. SISCO

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